

NOV 15 1988

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

You were incorporated as a non-profit corporation in the State of [REDACTED] on [REDACTED]. Your purpose as stated in your Articles of Incorporation stated in part:

"This corporation is formed for the purpose of promoting and perpetuating the interests of the men's, boys', ladies', children's and western apparel industry; to bring about maximum cooperation of men's, boys', ladies', children's and western apparel traveling salesman with all other segments of the industry - retailers, manufacturers, etc; to work with kindred organizations of this and allied industries in promoting the ethics and welfare of commercial traveling salesman; to bring about a closer relationship among all men's, boys', ladies', children's and western apparel traveling salesman; to promote the good will of men's, boys', ladies', children's and western apparel retailers, and to support our pledge, "Truth, Helpfulness and Service to the trade and our fello Members", to the fullest. In so doing, information centers, referral centers, educational programs, research programs, and other helpful activities may be established and maintained by the corporation, and it may assist and cooperate with individuals and other organizations with existing and future programs and activities consistent with the aims of this corporation..."

Your By-laws indicate that membership in your organization shall be restricted to sales representatives of apparel and items relating to the apparel industry in the area served by [REDACTED]. Further, your By-laws state in part:

"Rules and Regulations"

Section 1 A. A member shall not permit his firm, agent, representative, model, or assistant to display any line of merchandise elsewhere than in the space assigned to him by the Market Committee at the place selected for the Market of the [REDACTED].

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		[REDACTED]					
Surname		[REDACTED]					
Date		11/15/88					

- B. No line of merchandise may be displayed in the space assigned to a member, by a non-member of the Association.
- C. All exhibiting members must agree to exhibit for the full period of the Market as determined by the Board of Directors of the Association."

Financial information submitted indicated that a primary part of your income and expenses was related to the markets. For instance in [REDACTED] total income and expenses were \$[REDACTED] and \$[REDACTED] respectively. Your data indicated that income and expenses for the markets for that year were \$[REDACTED] and \$[REDACTED] respectively.

You indicated that the service performed for members was producing trade shows enabling manufacturer representatives and your members to interact. You also indicated that although your activities listed information centers, referral centers, educational programs and research programs, you have not effected any visionary educational and research programs. You indicated that your organization is also endeavoring to obtain group insurance benefits for members.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, ***, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 513(d) of the Internal Revenue Code provides that convention and trade show activities conducted by an organization described in section 501(c)(6) in connection with a qualified convention or trade show will not be treated as unrelated trade or business. The term "convention and trade show activity" means any activity of a kind traditionally conducted at conventions, annual meetings or trade shows, including, but not limited to, any activity one of the purposes of which is to attract persons in an industry generally (without regard to membership in the sponsoring organization) as well as members of the public to the show for the purpose of displaying industry products or to stimulate interest in, and demand for, industry products or services, or to educate persons engaged in the industry in the development of new products and services or new rules and regulations affecting the industry.

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual

persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. ***

The court case National Leather & Shoe Finders Association v T.G. 471 states in part: "...it can hardly be supposed that individuals would often join organizations without the expectation of receiving some personal benefits therefrom. In recognition of this the courts have held that if the individual benefits, such as particular services rendered to members, are only incidental or subordinate to the main or principal purposes required by the statute, exemption is not to be denied the organization..."

Revenue Ruling 58-224, 1958-1 C.B. 242 held that an organization which operates a trade show as its sole or principal activity and primarily for promoting the interest of individuals, is not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Code.

Revenue Ruling 78-240, 1978-1 C.B. 170 held that a business league that receives reasonable compensation for sponsoring and endorsing an international commercial trade show, which is not a sales facility and at which the league performs educational and supporting services, is not engaged in unrelated trade or business under section 513 of the Code.

Revenue Ruling 85-123, 1985-2 C.B. 168 revoked revenue rulings which held that income from rental of booth space at a show or convention is unrelated trade or business taxable income. This revenue ruling made obsolete previous revenue rulings which implied that selling activities at a trade show would result in unrelated trade or business. This revenue ruling did not affect Revenue Rulings 58-224 and 78-240.

You have indicated the following in regards to the trade shows/markets:

"IRC Section 513(d)(3) says essentially that trade show activity held by an otherwise qualifying non-profit organization does not disqualify it, if it educate(s) persons in attendance regarding new developments or products....related to the exempt activities of the organization, and the show is designed to achieve such purpose through the character of the exhibits and the extent of the industry products displayed.

It is only through trade shows such as this that the membership can be made aware of new fashions, styles, patterns, materials and accessories. The term education can mean more than lectures and seminars.

Revenue Rulings 78-240 and 85-123 amplify this even further.

Revenue Ruling 85-123 says that a rental of display space to exhibitors/suppliers...will not be considered unrelated trade or business even though the exhibitors who rent the space are permitted to sell or solicit orders.

The argument that members received personal benefits as a result of the convenience provided by having the exhibitors convene at the place is refuted by National Leather & Shoe Finders Association 9 TC 121. It can hardly be supposed that individuals would often join organizations without the expectation of receiving some personal benefits therefrom."

It appears that the markets are a primary activity of the organization, and that the markets are sales facilities as opposed to trade shows. Sales facilities are differentiated as indicated in Revenue Ruling 78-240. As evidence that your markets are sales facilities are the following:

- (1) Your markets have buying guides. The guides identify location, booth numbers and products to be sold by each exhibitor.
- (2) A letter in your buying guide indicated that support of the market is the advantage of being able to shop for diverse lines of merchandise at one time and in one location. It further stated that as attendance of each market increases, you are able to expand your commitment for exhibit space to include sales representatives with each market.
- (3) The markets are not open to the public, but only to your membership which you indicate is comprised of [redacted] sales representatives and [redacted] retail stores.

Your newsletters are devoted almost exclusively to information on the markets. Newsletters indicate that members can get discounts on airfare and hotels for attending the markets, and that door prizes are available at the markets.

Therefore, it appears that your primary activity is the operation of sales facilities for the convenience of your members. Thus, the markets are not qualified trade shows and your primary activity is the performance of particular services for members only rather than promoting the apparel industry. Thus, you would not qualify for exemption under section 501(c)(6) of the Internal Revenue Code as evidenced by Revenue Ruling 58-124.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 692 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6014 in the enclosed self-addressed envelope as soon as possible.

[REDACTED]

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:
Form 6018
Publication 892